

Headquarters U.S. Air Force

Integrity - Service - Excellence

Source Selection Training

Cost/Price Evaluation Module 2 - Cost Reimbursable Contracts



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Cost Overview

- **Learning Objectives**
- **Role of Cost/Price Analyst or Team**
- **Products**
- **Cost Evaluation**
- **Documents**
- **Lessons Learned**



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Learning Objectives

- **Understand role as member of Cost/Price Team**
- **Identify products of Cost/Price Team**
- **Know expectations of your Cost/Price Team Lead**



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Role of Cost Team

- **Evaluate realism and reasonableness and develop the Most Probable Cost (MPC) for each offeror and assign Cost/Price Risk Factor rating, if applicable**
- **Assess financial executability (budget)**
- **Participate in briefings when appropriate**
 - **e.g., Oral presentations, and Initial, Competitive Range, Final, and Decision Briefings, etc.**
- **Provide cost inputs for the**
 - **Simplified Source Selection Report (SSSR) or**
 - **Proposal Analysis Report (PAR)**
 - **Price Competition Memorandum (PCM), and**
 - **Source Selection Decision Document (SSDD)**
- **Document Most Probable Cost and any Cost/Price Risk Factor rating for offerors in the competitive range**



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Cost Team Products

- **Proposal checklist (if necessary)**
- **Evaluation Notices (ENs)**
- **Cost charts for all briefings**
- **Most Probable Cost for each offeror**
- **Cost/Price Risk Factor Rating**
- **Cost portions of SSSR/PAR, PCM, SSDD**
- **Cost section for debriefings**



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Cost Evaluation

Purpose - Evaluate for reasonableness, realism

- **Reasonableness:** For a price to be reasonable, it must represent a price to the government that a prudent person would pay when consideration is given to prices in the market
- **Realism:** Offeror's proposed cost are
 - Realistic for the work to be performed;
 - Reflective of a clear understanding of the requirements; and
 - Consistent with the unique methods of performance and materials described in the offeror's technical proposal
 - **Products - Most Probable Cost (PC) for each offeror**
 - Cost/Price Risk Factor Rating (if applicable)



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Cost Evaluation

Why?

- **Reasonableness**
 - FAR requirement - usually established by adequate price competition
- **Cost Realism**
 - Required for cost reimbursable type contracts
 - May be used for fixed price incentive type contracts
 - Required to determine the cost of performance for each offeror
- **Most Probable Cost**
 - The SSA uses MPC in the source selection decision process
 - MPC may differ from proposed cost and should reflect the government's best estimate of contract cost
- **Cost/Price Risk Factor**
 - This evaluation factor shall be used for ACAT, SDD phase programs that use a cost reimbursement or fixed-price incentive type contract structure
 - Cost/Price Risk rating assesses the degree to which an offeror's cost proposal compares with the Government's best estimates of the offeror's Most Probable Costs (MPC)



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Reasonableness - Price Analysis

Adequate Price Competition (APC) - FAR 15.403-1(c)

A price is based on APC if:

- **Two or more responsible offerors, competing independently, submit priced offers that satisfy the government's requirement and if**
 - **Best value source selection, price is a substantial factor**
 - **There is no finding the price of the otherwise successful offeror is unreasonable**
- **There was a reasonable expectation that two or more independent, responsible offerors would submit priced offers even though only one is received and**
 - **The CO can conclude the offer was submitted with the expectation of competition**
 - **Reasonable determination that proposed price is based on APC and approved at a level above the CO**

■ **Price analysis demonstrates reasonableness**

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Cost Evaluation

What info may be used to support the cost realism evaluation?

- **Audit Reports**
- **Technical Evaluations/IGE**
- **Forward Pricing Rate Agreements (FPRA) or Recommendations (FPRR)**
- **Recent Program History**
- **Wage Determinations**
- **Cost Models**
- **Published cost/price indices**
- **Compare to analogous efforts**
- **Market Information**



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Cost Evaluation

DCAA Available Services

- **Determine adequacy of offerors' accounting systems**
- **Determine financial capability of offerors**
- **Audits for cost realism to ensure offeror proposals are**
 - **compliant with their standard estimating and disclosed practices**
 - **based on all accurate historical data that might be relevant**
- **Review specific areas of offeror proposals (e.g. direct and indirect rates, bills of materials)**
- **Applicable to prime, major subcontractors, team members**

***Contact your on site DCAA Financial Advisor
or cognizant DCAA office for more
information and assistance.***



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Cost Evaluation Steps

Steps for evaluation of each proposal

- **Read and Understand Sections L&M of RFP and Acquisition Strategy**
- **Read proposal!!!**
- **Check proposal against the RFP Section L or Proposal Checklist. Was everything provided?**
- **Develop ENs to obtain missing items and clarifications**
- **Assess proposal against Budget for affordability**



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Cost Evaluation Steps

Steps for evaluation of each proposal (cont'd)

Coordinate with Technical Team:

- **Understand requirements, make sure everything is proposed!**
- **Cross reference cost proposal against technical proposal**
 - **Is the offeror pricing what is technically proposed?**
- **Has Tech Team conducted tech evaluations, such as**
 - **Do proposed hours support content and schedule?**
 - **Are types/quantities of material, facilities appropriate?**
 - **Review parametric estimate inputs**
 - **Scrutinize areas of risk, quantify magnitude for offset**



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Cost Evaluation

Steps for evaluation of each proposal (cont'd)

Material and Subcontract Costs:

- **Emphasis on high dollar items**
- **Understand the basis of estimate**
- **How firm are the proposed quotes/prices?**
 - **Rough Order of Magnitude (ROM) versus purchase order**
- **Were subcontracts awarded competitively?**
- **What type of adjustments were taken by the prime?**
- **Contract type is an indicator of cost risk**
 - **Firm Fixed Price through Cost Reimbursable**
- **DCAA can assist**



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Cost Evaluation Steps

Steps for evaluation of each proposal (cont'd)

Teaming (if applicable):

- **Review teaming agreement**
 - **Understand who does what**
- **Evaluate each team member or subcontractor**
 - **Same criteria as prime**
 - **Same technique/level of detail as prime**
 - **Assist Audits (if obtaining prime audit)**



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Cost Evaluation

Steps for evaluation of each proposal (cont'd)

- **Rate evaluation- check rates against FPRA, FPRR, look for errors (DCMA/DCAA can assist)**
- **Identify areas of cost risk and quantify**
- **Quantify Other Government Costs (OGCs)**
- **Calculate Most Probable Cost**
 - **Assign a Cost/Price Risk Rating if applicable**



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Cost Evaluation

Rules of Thumb

- **Always evaluate in accordance with Section M**
- **Do not use one offeror's data to adjust another offeror's proposal**
- **Use ENs as the tool to understand discrepancies or obtain clarifications**
- **Don't write in offeror's proposal, as offerors may request their proposals be returned after source selection**
- **Remember you are evaluating a proposal; take into account the offeror's unique approach, cost accounting system, etc.**
 - **You are not developing an estimate independent of the offeror's proposal**
- **Make sure the technical team's input is adequately documented**



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Documentation

- **Why is proposal evaluation documentation so important?**
 - **Supports business decision**
 - **Improve chances of sustaining protest**
- **Keep everything until protest period is over!**
- **Shred extra copies of the proposals when you get the go-ahead**



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Documents

Three main documents required at the end of the Source Selection:

- **Simplified Source Selection Report (SSSR)/Proposal Analysis Report (PAR)**
- **Price Competition Memo (PCM)**
- **Source Selection Decision Document (SSDD)**



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Proposal Analysis Report (PAR)

- **Responsibility of the SSET chair**
- **Requirement to do PAR**
 - **All Source Selections >\$100M**
 - **SSA determines if necessary for Source Selections between \$10M-\$100M**
 - **If not required, must do Simplified Source Selection Report (SSSR)**
- **Documents results of the SSET evaluation, provides comparative analysis of the offeror's proposals and SSAC/SSET source selection decision recommendation**
- **Includes: Performance confidence assessment, mission capability, cost/price risk (if used), cost/price, and contractual considerations**
- **Cost team responsible for cost/price section**



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Price Competition Memo (PCM)

- **Responsibility of Contracting Officer**
- **Documents principal elements of negotiated agreement**
- **Included in official contract file**
- **Cost team provides inputs to CO**
- **Documents**
 - **Program description, winning offeror, clearance, evaluators, acquisition background, period of performance, etc.**
 - **Reasonableness, Realism, Most Probable Cost Calculation, Cost/Price Risk Factor Rating (if applicable), Determination of Adequate Price Competition, Balance of Contract Line Items, and Total Evaluated Price**
- **May be combined with the PAR**



Source Selection Decision Document (SSDD)

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- **Provides SSA's Integrated Assessment and Best Value Decision**
- **Must track to Requirements, Evaluation Factors, Decision Briefing and PAR**
- **Compares Proposals by Factors/Subfactors**
- **Must be a stand alone document**
- **Redacted copy will be provided to debriefed offerors**



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Lessons Learned

- **Work resource issues early - necessary, available, qualified, trained people, seating, computers**
- **Develop a cost team schedule**
 - **Include activities, dates, responsible parties**
 - **Coordinate/integrate with overall schedule**
 - **Provides SSET with understanding of necessary tasks; ensures tech personnel are informed of deadlines**
- **Evaluation Notices (ENs)**
 - **Route ENs through appropriate channels for review to avoid duplication**
 - **Have other team members (e.g., technical) review appropriate ENs prior to approval**



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Lessons Learned (cont'd)

- **Have analogous system and factor data ready and reviewed prior to the evaluation**
- **Use appropriate Briefing Templates**
- **Regular Team meetings (e.g., weekly)**
- **Review your briefing/documentation requirements early to facilitate final preparation**
- **Continuous coordination among cost team, technical team, & contracting personnel**
- **Pass on lessons learned!**



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Questions?

- **Questions?**
- **Feedback?**
 - **Please complete the feedback sheet before you leave.**
 - **The training modules will be reviewed/updated periodically based on your inputs**